

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2

**FINANCIAL STATEMENTS
And
INDEPENDENT AUDITOR'S REPORT**

For the Years Ended December 31, 2019 and 2018

**Cummins, Coffman & Schmidlein, CPA's, P.A.
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JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 2
Jefferson County, KS

We have audited the accompanying financial statements of the business-type activities of the Jefferson County Rural Water District No. 2 as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Jefferson County Rural Water District No. 2 as of December 31, 2019 and 2018, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Rural Water District No. 2 financial statements as a whole. The Schedule of Operating Activities is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Cummins, Coffman & Schmidlein, CPA's, P.A.
Topeka, Kansas
April 14, 2020

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
For the years ended

ASSETS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 650,325	\$ 638,860
Accounts receivable	32,402	18,718
Prepaid expense	1,246	1,246
Total current assets	<u>683,973</u>	<u>658,824</u>
<u>NON-CURRENT ASSETS</u>		
Property and equipment, net	<u>619,799</u>	<u>555,560</u>
Total Assets	<u>\$ 1,303,772</u>	<u>\$ 1,214,384</u>

LIABILITIES AND NET POSITION

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 2,571	\$ 1,764
Other payables	242	272
Customer deposits	200	200
Total current liabilities	<u>3,013</u>	<u>2,236</u>
<u>NET POSITION</u>		
Invested in capital assets	619,799	555,560
Unrestricted	<u>680,960</u>	<u>656,588</u>
Total net position	<u>1,300,759</u>	<u>1,212,148</u>
Total Liabilities and Net Position	<u>\$ 1,303,772</u>	<u>\$ 1,214,384</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION
For the Years Ended

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>REVENUES</u>		
Water sales	\$ 204,168	\$ 179,906
Other income	42,500	12,211
Total operating revenues	<u>246,668</u>	<u>192,117</u>
<u>OPERATING EXPENSES</u>	<u>(160,487)</u>	<u>(169,177)</u>
Income (loss) from operations	<u>86,181</u>	<u>22,940</u>
<u>NON-OPERATING REVENUES (EXPENSE)</u>		
Interest income	921	924
Farm income	5,954	9,749
Farm expense	(4,445)	(3,637)
Total non-operating revenues (expense)	<u>2,430</u>	<u>7,036</u>
<u>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</u>	<u>88,611</u>	<u>29,976</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Benefit units sold	-	20,000
Total capital contributions	<u>-</u>	<u>20,000</u>
Change in Net Assets	88,611	49,976
Net Position - Beginning of Year	<u>1,212,148</u>	<u>1,162,172</u>
Net Position - End of Year	\$ <u>1,300,759</u>	\$ <u>1,212,148</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
Years Ended

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Cash Flows From (Used In) Operating Activities:		
Cash receipts from customer and reimbursements for services	\$ 190,484	\$ 176,646
Interest income	921	924
Miscellaneous cash receipts	10,000	2,511
Cash payments for goods and services	(56,434)	(71,020)
Cash payments to employees for services	(48,012)	(43,749)
Net cash from (used in) operating activities	<u>96,959</u>	<u>65,313</u>
Cash Flows From (Used In) Investing Activities:		
Purchase of capital assets	(119,503)	(96,816)
Farm activity, net	1,509	6,113
Net cash from (used in) investing activities	<u>(117,994)</u>	<u>(90,703)</u>
Cash Flows From (Used In) Financing Activities:		
Proceeds from sale of benefit units	-	20,000
	32,500	9,700
Net cash from (used in) financing activities	<u>32,500</u>	<u>29,700</u>
Net increase (decrease) in cash and cash equivalents	11,465	4,309
Cash at Beginning of Year	638,860	634,551
Cash at End of Year	\$ <u>650,325</u>	\$ <u>638,860</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 53,984	\$ 12,935
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	55,265	57,287
Interest income	921	924
Changes in assets and liabilities		
Accounts receivable	(13,684)	(3,260)
Prepaid expenses	-	(1,245)
Accounts payable	473	(1,329)
Net cash provided by operating activities	<u>\$ 96,959</u>	<u>\$ 65,313</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rural Water District No. 2, Jefferson County, Kansas (the District) was organized in 1965 as a quasi-municipal corporation, established under and pursuant to the provisions of K.S.A. 82a-612 et seq. of the statutory of law of Kansas. The District was established for the purpose of constructing and operating a water supply distribution system to benefit units within Jefferson County, Kansas.

Basis of Accounting

The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purposes of the statements of cash flows, the District considers operating, money market and petty cash bank accounts as cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of current and past due water usage charges and other charges for late fees. The accounts receivable balance at December 31, 2019 and 2018 is \$32,402 and \$18,718.

Property and Equipment

Property and equipment are recorded at cost. Improvements to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The District does not have a formal capitalization policy. Depreciation on all assets is provided using the straight-line method over estimated useful as follows:

	<u>Years</u>
Meters	15-40
Distribution lines	10-40
Office building	20-40
Office equipment	5

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$5,000.

Net Position

The District's net position is classified as follows:

Invested in capital assets – This represents the District's total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Operating Revenues and Expenses

Operating revenues and expenses result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 2 CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

At December 31, 2019 and 2018, cash balances are comprised of demand deposits and certificates of deposit. Custodial credit risk is the risk that in the event of a bank failure, the district's deposits in excess of coverage may be lost. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposits at all times.

At December 31, 2019, the District's carrying amounts of deposits were \$649,976, of which \$250,000 was covered by FDIC insurance. \$203,143 was collateralized by securities held in safekeeping pledged to the District. The district was exposed to credit risk in the amount of \$196,833 at December 31, 2019 for amounts exceeding coverage.

At December 31, 2018, the District's carrying amounts of deposits were \$639,187, of which \$250,000 was covered by FDIC insurance. \$204,809 was collateralized by securities held in safekeeping pledged to the District. The district was exposed to credit risk in the amount of \$184,378 at December 31, 2018 for amounts exceeding coverage.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019

NOTE 3 PROPERTY AND EQUIPMENT

The following represents a summary of changes of property and equipment at :

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Easements	\$ 1,280	\$ 1,280
Water lines and wells	1,496,343	1,376,840
Equipment	8,390	8,390
Land	113,860	113,860
Building	157,889	157,889
Vehicles	16,685	16,685
Total property & equipment	<u>\$ 1,794,447</u>	<u>\$ 1,674,944</u>
Less accumulated depreciation:		
Water lines and wells	\$ (1,119,229)	\$ (1,071,446)
Equipment	(8,390)	(8,390)
Building	(37,018)	(32,874)
Vehicles	(10,011)	(6,674)
Total accumulated depreciation	<u>\$ (1,174,648)</u>	<u>\$ (1,119,384)</u>
Property and equipment, net	<u>\$ 619,799</u>	<u>\$ 555,560</u>

Depreciation expense for the years end December 31, 2019 and 2018 was \$55,264 and \$57,287, respectively.

NOTE 4 COMPENSATED ABSENCES

The District does not have a paid time off policy for employees, therefore, no accrual is required.

NOTE 5 RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District has insurance through Allied Insurance for all aspects of their business.

NOTE 6 COMPLIANCE WITH KANSAS STATUTES

Management is aware of no statutory violations for the period covered by the audit.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019

NOTE 7 TAX EXEMPT STATUS

Rural Water District No. 2, Jefferson County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability expense.

While the District is not required to file tax returns, the payroll activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

NOTE 8 SUBSEQUENT EVENT

Subsequent events were evaluated through the date of the audit report, which is the date the financial statements were available to be issued. No events were found requiring disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
SCHEDULE OF OPERATING EXPENSES
For the Years Ended

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Chemicals	\$ -	\$ 420
Depreciation	55,264	57,287
Ditching	995	-
Dues and subscriptions	528	-
Engineering fee	-	11,115
Finder's fee	75	175
Business insurance	7,836	6,230
Vehicle insurance	-	-
Professional fees	4,693	4,475
Miscellaneous	1,292	4,726
Mowing services	1,600	1,360
Office and postage expense	2,869	3,037
Bond payment	-	481
Returned check	64	12
Salaries	48,012	43,749
Supplies	3,131	7,707
Payroll taxes	3,673	3,519
Other taxes	3,191	2,905
Water protection tax	1,142	1,329
Testing expenses	665	1,665
Travel	75	415
Utilities	16,986	15,248
Vehicle Costs	8,396	3,322
Total operating expenses	\$ <u>160,487</u>	\$ <u>169,177</u>